

EconoFact Chats: Fiscal Policy and Racial Disparities

William G. Gale, The Brookings Institution

Published on 20th February 2022

Michael Klein:

I'm Michael Klein, executive editor of EconoFact, a nonpartisan web-based publication of The Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein:

My guest on EconoFact Chats today, Bill Gale, is widely recognized as one of the country's top experts on public finance. He's a Senior Fellow at the Economic Studies Program at the Brookings Institution and Co-director of the Tax Policy Center. He's also the immediate past president of the National Tax Association, a group of economists and lawyers who study tax policy. Bill's November 2020 presidential address to this group was titled 'Public Finance and Racism.' And it's safe to guess that the words racism or race have not been in the title of any previous presidential address to this group. In fact, Bill began his remarks by noting that, "I studied tax policy for over 30 years without ever focusing on connections between race and tax issues." But he continued with, "I am only now beginning to understand the full extent of these connections."

Michael Klein:

Well, what are the ways in which public finance -- the study of government taxing and spending can and should cover issues of racial discrimination? How have tax policies and other public policies contributed materially to this problem? And how can public finance policies address racism and racial disparities? To answer those questions, I'm very pleased to welcome back to EconoFact Chats, Bill Gale. Bill, welcome.

Bill Gale:

Thanks very much. Always happy to be here.

Michael Klein:

Bill, what initially drew you to considering the connections between public finance; your study of tax policy and government spending, and racial disparities?

Bill Gale:

Like a lot of people, I think I was shaken by the murder of George Floyd in 2020. After that happened, I started reading about issues related to racial equity, justice, and economics. And I had never really made the connection between race and tax policy before that, but as I was reading about racism, one of the things that struck me was how important public policy was in fomenting racism, in cementing the effects of racism into effect. Taxes and government spending were not innocent bystanders. They were central to the development of racism in this country. So as a public policy expert or someone who studies public policy, I wanted to learn more about that link.

Michael Klein:

You began your presidential address by noting that seemingly race-blind policies are typically neither race neutral nor race fair. Why is that?

Bill Gale:

Lyndon Johnson back in the 1960s, gave a great example. Suppose two runners start out on a race. One of them has a ball and chain on their legs. The other one doesn't. They race for a while. The one with the ball and chain is obviously way behind. Then someone comes along and takes off the ball and chain. If they then say, "Okay, now it's a fair race," obviously that's wrong because they've done nothing to undo the effects of the policies in the past. So policies that are created without reference to race right now often have the same effect. That is they're basically saying, "Okay, wherever you start now, you can continue on an even basis." But they don't do anything to correct the past injustices.

Michael Klein:

One of the big issues then is the question of how does one determine whether a policy is in fact racist?

Bill Gale:

Well, that is a great question. And it's one I actually tried to ignore in the first several drafts of this paper in the speech, but I found that like I kept coming back to it. I feel like I've learned a fair amount about this. I think it's hard to give an airtight definition of a policy that is racist or not racist. I do think that the existence of racial animus leads to some obviously racist policies, but the absence of racist animus does not mean the policy is not racist. So I think we can talk more about this, but I think ultimately the definition of what constitutes a racist policy depends on the existence of other policies and of other conditions in society.

Michael Klein:

Let's start out with an easier example, say redlining. Redlining is an example of racial animus, right?

Bill Gale:

Right. Under redlining, black households were forced to live in certain areas of cities that were marked off on a map -- hence the redlining statement. Property values in these areas were low, and that made it very difficult for blacks to accumulate wealth through housing the way whites have. And redlining was in existence formally from the 1930s to about the 1970s, when it was formally eliminated by law. But in fact, it still exists, and you can see the effects in areas that were redlined and weren't redlined. You can see the effects on housing by race even now.

Michael Klein:

That's a pretty clear-cut example of a racist policy. What would be, Bill, a broader definition, one that takes into account some of the other things that you've mentioned? The ball and chain being released, but the person being very far behind in the race? And what definitions do you feel work better taking that kind of consideration into account?

Bill Gale:

There's a little bit of a 'you know it when you see it' feel to it. The problem though with that is different people look at the same situation and see very different things. So what I would say is in order for policy to be not racist, it needs to be sort of not racist in its surface form, but also not racist in the sense that it

does not produce or sustain past racial injustices. I know that's a little vague, but we can talk about specific examples if that'd be helpful.

Michael Klein:

Well, one of the issues that comes up is inequity, right?

Bill Gale:

Right.

Michael Klein:

What is inequity? How would you define inequity?

Bill Gale:

That is a good question. I can give you an example of how inequity is different from inequality. The Biden administration recently said they would send four COVID tests to every household that's signed up. That's equality, but it's not equity, because some households have one person in it, some households have six people in it. An equitable solution in that case would tailor the number of tests to the number of people, and maybe to the age composition of the people or something else. But sending four to each household regardless of the characteristics of the household is a good example of where equality does not mean equity.

Michael Klein:

Can you then give an example linked to race where we have a distinction between equity and equality?

Bill Gale:

Sure. Let's take universal healthcare, which people have talked about as a proposal, either a single-payer plan or a public option plan where people can sign up for the public health insurance. They don't get it in the private sector. Saying everyone has access to healthcare would probably strike many people as a race-neutral policy. It certainly would've struck me as a race-neutral policy two years ago, before I started thinking about this, but it would actually generate disparate racial outcomes under a lot of situations. For example, suppose there are not as many doctors in black communities, or there's not as many hospitals in those communities. Or suppose black patients because of the Tuskegee experiment and other things like that, don't feel comfortable using the healthcare system as much as whites do. Then even if you had universal healthcare, you would not only get disparate outcomes -- disparate outcomes is not the problem. It's disparate outcomes because of racism that is the problem.

Bill Gale:

So what you'd want to do to avoid this policy being racist is supplement universal healthcare with efforts to increase the supply of doctors or hospitals in these communities, or to explain to black household why they should trust the medical system now, even despite the atrocities that were committed in the past. I don't know that that's the full compliment of policies that would make it not racist versus racist. It's not a zero one thing. It's more of a continuum. But those are the types of things I would want people to consider in implementing universal healthcare. Not just saying, okay, universal healthcare, we're done. But universal healthcare, let's now take seriously how we make sure that all parts of society gain access to the universal healthcare.

Michael Klein:

Can you generalize from that specific example, Bill, and talk about maybe a definition more broadly? Not just looking at universal healthcare, but other policies as well, where the issue of initial conditions becomes important?

Bill Gale:

Sure. I mean, what I would say is like a new or existing policy should be accompanied by whatever other changes are needed to ensure that everyone can use the policy on equal terms. That's obviously not a hard and fast definition, but I think that's the spirit of the definition. In the healthcare example, as I mentioned, this would imply addressing the potential causes of disparate outcomes under universal healthcare, in addition to actually providing the universal healthcare.

Michael Klein:

Since we're both economists, we can go into economic nerd action right now. So in economics, you would call this the problem of the second best. Can you explain very briefly what economists mean by that?

Bill Gale:

Sure. A second best policy in economics does not refer to the quality of the policy. It refers to the quality of the underlying situation. So a first best situation has no distortions. And then it's the classic pure market that economists talk about a lot. A second best policy or second best environment is one where there's already a distortion. For example, the production and consumption of carbon generates externalities in terms of climate change, but it's not taxed. People don't bear the full cost of producing or consuming carbon in their everyday activities. That's a preexisting distortion. So then the second best policy is to tax the carbon so that people do face the full costs of their actions. The application here is these past injustices are essentially a distortion. If you look at how people are situated today, economically, it's a result of these past injustices. So you can't undo the past, but you can adopt policies that compensate for the failures of the past.

Michael Klein:

So distortion, I know what you mean, but there's a very specific economic meaning of it. It's a little bit like the Lyndon Johnson example that the distortion was that somebody had a ball and chain around his or her ankle for the first part of the race. And then to think, well, now that the ball and chain had been removed, we should just go ahead. That's ignoring the past. You also have this really, I thought very interesting example of making library books available. Can you discuss that?

Bill Gale:

Sure. In the talk, I wanted to convey these examples in the simplest artificial way possible. So my research assistant came up with the example of suppose the policy is every kid who has a library card gets a free book. All right? That seems pretty innocuous, pretty harmless. And if you had asked me two years ago, was that policy racist? I would say no, of course not. Now I would say it depends. It depends on what other conditions exist and what other policies exist. The most obvious example is suppose there's a policy that says only white kids can get library cards. Then it's obvious that giving free books to kids with library cards is a continuation of that policy. That policy is racist. Giving those kids free books, but not to other kids is obviously racist. So that's an extreme example.

Bill Gale:

But suppose instead of saying only white kids get library cards, suppose we have a little fuzzier issue. Suppose libraries are only based in communities that have a majority of white people living in them. Or suppose they're farther away from black households than white households. Or suppose black households have less access to computers or less access to cars and hence they find it harder to get to the library. And suppose for purposes of example, that those things are historically based in racism, the redlining, for example, that I talked at about. Then I think there's a legitimate debate about whether giving kids with library cards free books is a racist policy or not because white kids are going to benefit more from that. And that will exacerbate racial inequality. So as I was saying earlier, it's not just that policy, the free books that should be done, it's making sure that black kids have access to those books.

Michael Klein:

That's a really good illustrative example, but what about real-world examples? Did you find a lot of real-world examples of this?

Bill Gale:

Yes. Let's put this way. If racism can rear its ugly head so quickly in an example as innocuous as giving kids free books, you can be certain it's going to show up in real-world situations where money is on the line. Redlining is a perfect example. So combine redlining with the mortgage interest deduction. The mortgage interest deduction is only taken by people that have a whole lot of interest payments on their house, which means they've got to have a big loan, which means they need to have a house that's very valuable. Redlining restricted black households to homes that were not very valuable, so they couldn't take the mortgage interest deduction. The mortgage interest deduction on its face is totally non-racist. Anyone that has a big enough mortgage can take the deduction, but in the real world, the black households were excluded from that via redlining. That's an example of a preexisting condition that in my view affects whether the mortgage interest deduction should be considered unfair on a racial basis.

Michael Klein:

Bill, what you're talking about sounds a little bit like critical race theory, where people are talking about the preexisting conditions. And I guess not many people would've expected that a presidential address to the National Tax Association would reflect a central tenet of critical race theory. So can you explain a little bit more the link between the examples you've given and the things you've been thinking about and critical race theory?

Bill Gale:

Sure. I'm not about to try to summarize all the critical race theory, but the idea that how we should think about policies depends on the surrounding institutions, I think is central to critical race theory. A policy that might be racist under one set of circumstances might not be racist under other set of circumstances. And the whole idea that past policies were built to sustain a racial hierarchy, I think is consistent with this. And because of these past activities, new race neutral policies uphold racism, they cement in the effects of past racism rather than addressing the effects of racism. These are all ideas that critical racism theory had long before I did.

Michael Klein:

One of our very first podcasts was with Eduardo Porter, and it was about his book in which he discussed how so many policies were really tilted towards disadvantaging blacks, for example, the GI bill and so on. But in your presidential address, you gave another example that also seems to be benign, but it can have

this effect of building in and amplifying racist outcomes. And that was about how a company might try to get a pool of people to hire. Can you explain that one please?

Bill Gale:

Sure. Let me take a step back and just say in economic theory or economists generally don't want to acknowledge discrimination unless you can show that somebody is actively discriminating. And what this example has to do with is that this is completely innocuous, unintentional discrimination or unintentional acts that have the effect of discriminating, which suggests -- that it was based on a study by two sociologists, and it's just suggests the broader point that discrimination can appear even in places where no one is actively discriminating.

Bill Gale:

The idea is, suppose there's a company, its workforce has a current composition of workers between blacks and whites. And then it tells its workers it wants to hire some new people and they should go tell their friends and contacts about these job openings. Well guess what? The composition of the applicants is going to be very similar to their racial composition in the workforce. So if whites were previously advantaged in getting these jobs, this policy would then cement in that advantage going forward. And I feel this is not simply an academic or hypothetical example. A lot of organizations have recognized the bias in their old hiring processes and have made changes in recent years to make hiring more inclusive and more equitable.

Michael Klein:

I think you're right that most economists think about discrimination only in terms of individuals discriminating. And there's some famous work by people like Milton Friedman and Gary Becker on that. But there is also this branch called stratification economics. And one of the main people in that is Sandy Darity of Duke University, who we had as a guest on EconoFact Chats in which he was talking about reparation payments. Can you discuss very briefly what stratification economics is?

Bill Gale:

Sure. Stratification economics, as I understand it, says that people identify as part of a group and then the groups battle for relative superiority. So there's a dominant group and a dominated group in a two-group model. And the dominant group undertakes policies that try to cement its advantage in place. And one of the interesting things about stratification economics is it explains discrimination as essentially optimal behavior. Not in a social sense. In economics, if people discriminate, they pay a cost in terms of gaining profits...in Gary Becker's classic interpretation. In stratification economics, people discriminate because that's what they want to do. It's not an accident that they discriminate.

Bill Gale:

One interesting way to think about this is in standard economic models of discrimination or statistical discrimination, when the difference between the two groups shrinks, discrimination goes down. In stratification economics, when the difference between the two groups shrinks, the dominant group feels more threatened and discrimination goes up. And you can see, I think in recent American society events, that we're on our way to becoming a majority, minority country, where more than half the people are non-white. And I think you can see kind of the reaction from what you might old white dominant community against that in all sorts of cultural and political actions. So I think stratification economics picks up on something that other economic theories don't. And I think Sandy Darity is right about this.

Michael Klein:

One of the phrases that really caught my attention in your presidential address is when you wrote, "once racism is everywhere, it may be harder to see." What did you mean by that?

Bill Gale:

If you see a Nazi march or a clan lynching, it's pretty easy to identify that as racism. Well, let me give you an example. David Foster Wallace tells a story of these two fish that are swimming along, talking to each other. Another fish comes along and says, "Hey guys, how's the water." And one of the first two fish says to the other, "What the hell is water?" The idea is just when stuff is all around you, it's easy to see that as like normal and not understand what's distinctive about it. So the kind of day-to-day interactions that are built into society, sort of the normal everyday actions to the extent that they embed racism, it's hard to see it because it's hard to distinguish from "normal". But if you step back and look at it, you can see more of the activity as reflecting a racist attitude or racist policies.

Bill Gale:

I analogize this to looking at an Escher drawing and kind of looking at it for a while and not seeing what's the big deal. And then all of a sudden you see it. And once you see it, you can't unsee it. And so I think there's a lot of discrimination built into everyday activities that people are just not aware of.

Michael Klein:

So race neutrality is not the opposite of racism. This is like what you were saying earlier.

Bill Gale:

Well, Ibram Kendi, the author or popularizer of the phrase anti-racism, argues that the opposite of racism is anti-racism. And that means the correction of past injustices. What he's trying to get at is this notion that just being race neutral is not enough because we've had these centuries in this country of racist policies and racist actions. And that this is the second best policy idea as well, that we need to address those past injustices via anti-racism rather than just be neutral going forward.

Michael Klein:

So to conclude Bill, I'd like to ask you, how was that presidential address received?

Bill Gale:

Very well. I have 20 or 30 emails from people describing how much they appreciated the talk. I've been asked to give the talk numerous times since then. And I think there's an appetite among well-meaning academics and researchers. I think there's an appetite to understand these issues. I mean, I don't claim to have the monopoly of the understanding. I'm just working with everyone else trying to move this forward. But I think there's real room for daylight here in thinking about these issues and acting on these issues.

Michael Klein:

Well, you certainly had a bully pulpit in that it was a presidential address. I appreciate also that you came on to EconoFact Chats today to share your thoughts about this really vital issue. Thanks a lot Bill for joining me today.

Bill Gale:

Thank you for having me.

Michael Klein:

This has been EconoFact Chats. To learn more about EconoFact and to see the work on our site, you can log into www.econofact.org. You can subscribe on our site to our newsletter that will let you know when we publish new memos and new podcast episodes. Please feel free to share this podcast and our memos with friends, colleagues, and on social media. EconoFact is a publication of The Fletcher School at Tufts University. Thanks for listening.